

Message Text

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46-40

ACTION EA-10

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 5740

USDOC WASHDC

INFO AMCONSUL MEDAN

AMCONSUL SURABAYA

AMEMBASSY SINGAPORE

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY BANGKOK

UNCLAS JAKARTA 15159

E.O. 11652: N/A

TAGS: APER, ABUD, ID

SUBJ: HR 17488 TAX REFORM BILL, TITLE III,

SECTION 311 (B)

REF: STATE 270247

1. WE UNDERSTAND RULES COMMITTEE ACTION LIKELY STOP HOUSE CONSIDERATION HR17488 THIS SESSION BUT ASSUME FOLLOWING COULD BE USEFUL SHOULD SAME OR SIMILAR BILL BE REVIVED IN SUBSEQUENT SESSION OF CONGRESS. MISSION DOES NOT HAVE TEXT OF SECTION 311 (B) AS REPORTED OUT OF COMMITTEE, BUT BASED ON OUR UNDERSTANDING OF TAX PROVISIONS AS THEY APPLY TO ALLOWANCES OF NON-GOVERNMENT PERSONNEL ABROAD, WE HAVE MADE FOLLOWING ESTIMATES OF HOW TAXATION OF ALLOWANCES WOULD IMPACT ON PERSONNEL OF DIFFERENT LEVELS AT THIS POST. WE HAVE INCLUDED MAJOR ALLOWANCES LISTED REFTTEL.

2. FOLLOWING ESTIMATES BASED ON TAX EFFECTS AVERAGED OVER FOUR-YEAR TOUR INCLUDING ONE YEAR WITH HOME
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LEAVE, ONE YEAR AT POST WITH R&R, ONE YEAR WITH

MID-YEAR TRANSFER FROM WASHINGTON TO JAKARTA, AND ONE YEAR WITH MID-YEAR TRANSFER FROM JAKARTA TO POST OUTSIDE HEMISPHERE. AVERAGED IN THIS WAY, TAX EFFECTS ARE ROUGHLY EQUIVALENT TO A YEAR IN WHICH AN OFFICER HAS A MID-YEAR TRANSFER FROM WASHINGTON TO JAKARTA. AVERAGE WOULD BE HIGHER IF OFFICER HAD TWO R&R'S DURING FOUR YEAR TOUR.

3. ESTIMATES ARE SHOWN FOR FIVE PAY CATEGORIES- (A) - AMBASSADOR; (B) FSO-2 CHIEF OF SECTION; (C) FSO-4; (D) FSO-7; AND (E) FSS 6/8. IN FIRST FOUR CATEGORIES, WE ASSUME WIFE AND TWO DEPENDENT CHILDREN AT POST. ON THIS BASIS, FOR AN AVERAGE YEAR, ALLOWANCES FULLY TAXED WOULD RESULT IN DISPOSABLE INCOME AFTER FEDERAL AND STATE TAX (ASSUMING MD. STATE TAXES FOR ILLUSTRATION) REDUCED BELOW WASHINGTON BASE LEVEL (REPEAT BELOW WASHINGTON BASE LEVEL) BY FROM 22-47-0/0, WITH MOST ADVERSE EFFECTS AT EITHER END OF CAREER RANGE, I.E. ON AMBASSADOR AND MOST JUNIOR OFFICERS. SINGLE STAFF OFFICER WOULD BE CONSIDERABLY LESS AFFECTED, WITH 7-0/0 CUT BELOW WASHINGTON BASE.

4. EFFECTS WOULD BE PARTICULARLY ADVERSE IN YEAR WHEN EMPLOYEE AND DEPENDENTS GO ON HOME LEAVE, IN WHICH CASE, TAX BURDEN WOULD INCREASE TO POINT THAT DISPOSABLE INCOME AFTER TAXES WOULD BE REDUCED BY FROM 44-71-0/0 BELOW WASHINGTON BASE DISPOSABLE INCOME (16-0/0 FOR SINGLE STAFF).

5. FOREGOING AVERAGES BASED ON FAVORABLE ASSUMPTION THAT PRESENT NOMINAL POST HOUSING ALLOWANCE FIGURES (RANGE FROM \$2,400-6,900) WOULD BE ACCEPTABLE BASE FOR SIMULATING HOUSING

INCOME TO EMPLOYEE. HOWEVER THESE FIGURES ARE FROM \$10-20,000 BELOW CONSTRUCTIVE COST TO MISSION OF PROVIDING RENTAL HOUSING PLUS UTILITIES,
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ETC., AND FURTHER STILL BELOW EFFECTIVE MARKET RATE FOR SOME HOUSES WHICH ARE MISSION OWNED. IF IT SHOULD BE RULED THAT CONSTRUCTIVE OR MARKET COST OF HOUSING WOULD BE TAXABLE, INCLUSION THIS ADDITIONAL AMOUNT WOULD RAISE BY FURTHER 50-100 PERCENT TAX LIABILITY.

6. ANY PROVISION FOR EXEMPTION SUCH AS THAT

CURRENTLY ALLOWED NON-GOVERNMENT U.S.
CITIZENS ABROAD ON \$20-25,000 OF INCOME WOULD OF
COURSE DPENUATE#EFFECTS CORRESPONDINGLY. EMBASSY
POUCHING TO EA/EX TABLES PROVIDING DETAILS OUR
ESTIMATES, FROM WHICH EFFECTS OF ANY EXEMPTION CAN
EASILY BE CALCULATED.

7. BELIEVE DEPARTMENT MAY FIND THESE ESTIMATES
USEFUL SHOULD THIS PROVISION EMERGE IN TAX OR OTHER
LEGISLATION SUCH AS HR17488. WE CAN ONLY CONCLUDE
THAT THIS EMBASSY AND CONSTITUENT CONSULAR POSTS
IN INDONESIA WOULD BE UNABLE TO OBTAIN ADEQUATE
FOREIGN SERVICE STAFFING IF PROVISIONS EVEN
APPROACHING THOSE CONTAINED IN HR17488 WERE TO BE
PASSED INTO LAW.

8. DEPARTMENT PLEASE PASS THIS MESSAGE TO AFSA FOR
ITS BACKGROUND INFORMATION.
TOUSSAINT

NOTE BY OCT: NOT PASSED AFSA.
#AS RECEIVED, PARA 6.

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